International Research Journal on Advanced Engineering and Management
https://goldncloudpublications.com
https://doi.org/10.47392/IRJAEM.2026.0319
e ISSN: 2584-2854
Volume: 04 Issue: 05 May 2026
Page No: 2214 - 2219

Analysing the Economic Consequences of the US - Iran Conflict

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Abstract
The long ongoing geopolitical conflict between Iran-Israel, has significantly escalated in recent times, by the direct involvement of the United States in 2026, transforming it into a major global crisis, significantly reshaping the international political and economic landscape. In this dynamic VUCA world, rising energy insecurity, disruption in the supply chains, and shifting geopolitical partnerships have increased uncertainty on a global level. The conflict highlights the vulnerability of an interconnected world. The shutdown of important trade routes such as the Strait of Hormuz and complications in oil and gas supplies have initiated a global energy crisis, rising imported inflation and economic ambiguity across nations. From a wider aspect, the conflict extends beyond a regional dispute and has evolved into a geopolitical issue involving important powers and international institutions. The conflict has significantly increased risks of nuclear spread and long-term instability, therefore reshaping international connections and global governance foundation. India, due to its economic ties with the Middle East, has both directly and indirectly been affected by this conflict. Since it relies significantly on these areas for major sourcing of crude oil and is now facing rising energy cost, inflationary pressure and external sector vulnerability. Moreover, due to dependence of other commodities like fertilizers, food stability has been impacted in the country as well highlighting the global conflict's connection with India's food supply. India's strategic response reflects a balanced approach towards the crisis management and economic resilience. The study aims to analyse the impact of US-Israel-Iran conflict on economic development of the world. The study also examines the effect of the conflict on India specifically its commercial sector as well as evaluate their risk management strategy in handling geo political conflicts.
Keywords: *Artificial Intelligence, Online Grocery Shopping, Bhubaneswar, Consumer Behaviour, Trust, Personalisation, Smart City, SEM, Purchase Intention, Chatbot, Quick Commerce, Odisha.*

1. Introduction
The intensifying geopolitical conflict involving Iran, Israel, and the United States has emerged as a defining global crisis in recent years, significantly altering both the political and economic landscape worldwide [1]. In an increasingly volatile, uncertain, complex, and ambiguous (VUCA) environment, the escalation of tensions has exposed the fragility of global interdependence, particularly through disruptions in critical energy supply chains and trade routes such as the Strait of Hormuz. These disturbances have triggered a surge in energy prices, heightened inflationary pressures, and amplified economic uncertainty across nations. Beyond its regional origins, the conflict has evolved into a broader geopolitical concern involving major global powers, raising risks of prolonged instability and nuclear proliferation while reshaping international relations and governance structures. For India, with its strong economic linkages to the Middle East, the consequences are particularly significant, affecting energy security, inflation, trade balances, and even food supply stability. In this context, the present study seeks to analyse the global economic impact of the US–Israel–Iran conflict, examine its implications for India's commercial sector, and evaluate the effectiveness of India's risk management strategies in navigating such geopolitical challenges [2].

1.1 Methodology
The study is based on a combination of description and analytical research design. The descriptive aspect is used as the nature of the topic demands a thorough study about the history of the conflict, while the analytical approach evaluates the numbers in the economic impact on the global economy [3]. A mixed

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approach has been used, including both qualitative and quantitative analysis [4]. Qualitative analysis focuses on geopolitical developments, policy responses, and strategic implications, whereas quantitative analysis examines economic indicators such as oil prices, inflation rates, and trade patterns. Sources of data:

- Reports from international organization (IMF, World bank, etc.)
- Government publications and economic surveys
- Research papers, journals, articles.
- Industry reports and credible online database

2. Us-Iran Conflict

2.1. Political history of US – Iran- Israel

The conflict involving US, Israel, Iran has evolved traces its history back through decades of geopolitical rivalry, with nuclear policy and regional dominance at its base [5]. The roots of bitterness can be found back to the Iranian revolution, post which Iran adopted a strong anti-west and anti-Israel attitude, reshaping middle east power dynamics. In recent years, tension grew stronger due to Iran's nuclear ambition [6]. In June 2022, Iran hastens its nuclear enrichment program, raising global concerns about potential weaponization. By June 2024, Iran accentuated the peaceful and medical purpose of its nuclear growth, though this justification became more of a question. This development went through debates during the IRAN NUCLEAR DEAL, especially after the withdrawal of the United States under Donald Trump which had already loosen diplomatic trust [7]. The circumstances grew intensive in 2025. After a long term, of rising tensions often compared to systematic diplomatic structure, Israel launched its direct strikes on Iran following 75 days of sustained hostility. A critical point arose when an important Iranian site was targeted, marking the jump from secondary confrontation to apparent conflict [8]. Domestic political dynamic within the Israel also contributed to grow this conflict. Benjamin Netanyahu, is also undergoing electoral pressure and ministerial competition, adopted a more forceful military pressure [9]. The urgency to take in confidence political legitimacy led to aggressive decision making, adjusting timelines into short periods rather than prolonged diplomatic association. Supporting Israel's offensive actions, the US stepped in by imposing conditions aimed at de-escalation while simultaneously straining calculated pressure on Iran. This resulted in an pre phase of compliance by Iran, akin to conditional surrender, particularly in relation to nuclear transparency and restrictions. In the same moment, negotiations revisited earlier made promises under nuclear agreements, though with important untrust among all parties. Although the primary phase of military confrontation overtime declined, the conflict did not finally end, instead it altered into a long phase of accidental and unaligned engagements, including proxy warfare, cyber conflict and regional instability. The effects of the war went on to spread globally influencing energy markets, inflation and geopolitical alignments. In conclusion the US-Israel -Iran conflict reflects a complicated interplay of nuclear leadership, domestic politics, leadership pressures and old war house rivalries. On the virtue of warfare, where active war has diminished, the persistence on underlying tension indicates that the conflict remains unresolved, continuing to shape international relations and regional security [10].

2.2. Bone Of Contentions: Closure Of Strait Of Hormuz

On march 2nd, the 39 km Strait of Hormuz which is the world's most critical choke point linking gulf to the Gulf of Oman was announced to be closed until further notice. It was the only route to open ocean for Gulf based exporters and handles about 20% of global oil and one third of world's LNG [11].

3. Results and Discussions

3.1. Results

The results of the 3 objectives taken by us are as follows:

Objective 1: Impact of the conflict on Global Economic Development and the world According to IMF, any country involved in war faces a decline of about 7% in GDP for 5 years. This conflict involves 3 major economies of the world - US, Israel, Iran, which creates a major decline in the global economic development. Due to the closure of Strait of Hormuz, through which 20-25% of the global oil trade passes becomes a major disruption point [12].

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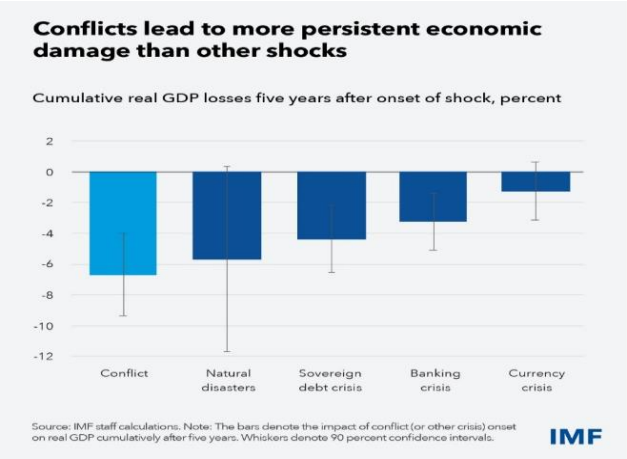

Figure 1 Reasons for loss in GDP arranged according to the its impact

The given graph released by IMF, clearly accentuates the fact that conflicts leads to more persistent economic damage than any other shock inclusive of natural disaster, sovereign debt crisis, banking crisis, currency crisis [13].

Impact of conflict:

Supply chain breakdown: The conflict creates issue in critical global trade routes, mostly in middle east which is a hub for crude oil. Any military rises involving Iran's escalated risks in strategic choke points like the Strait of Hormuz, through which an important amount of world oil is passed. As a result, industries worldwide face shortage of raw material, delayed production cycle and increased transportation cost. This affects the major sectors like, manufacturing, energy and even food supply chains making global trade less efficient and more effective [14].

Global inflation: The conflict directly adds up to rising inflation across the world. Since, the middle east is the hub of energy supply, instability causes crude oil prices to spike up. Higher oil prices increase the cost fuel, electricity and transportation. These rising costs are paid by end customers in the form of higher prices of goods and services. counties like India which depend heavily on oil imports, experience more inflationary pressure. Additionally, government expenses on defense and subsidies increases during such conflicts, further fueling inflation. Thus, the war creates a Dominica effect, raising the overall price level globally.

Risk of recession due to high energy cost: Sustained high energy prices can slow down economic growth and even trigger recession. When fuel energy price spikes up, business face high production cost, leading to consumers cutting down spending, and investment declines due to economic uncertainty as well. This combination leads to decline in degree of economic activity. For energy importing nations this situation becomes more crucial as number of trade decreases. If prolonged, these factors can push economies into depression. The uncertainty formed due to conflict further discourages global investment and trade amplifying the slowdown.

Objective 2: Impact of the conflict on India In commercial sector

The conflict between the United States and Iran has been looked as a significant geo political issue with huge consequences. Given India's rising impact on global economy and its heavy dependence on energy import, such problems primarily affect its economic condition and development. Alterations in oil prices, disruption in trade routes and overall variability in international markets make India particularly vulnerable in such rivalry. As a result, the Iran – US conflict has a visible impact on India's energy security, economic performance, inflation stability, growth and moderate social level [15].

The major impacts can be explained as follows:

Energy Security: India is highly dependent in imports for crude oil. The Iran – US conflict disrupts the Strait of Hormuz. The Iran - US conflict disrupts oil supply routes, chiefly through the strait of Hormuz, and important global communication point. This leads to supply shortages and sharp spike in price in oil prices.

Economic impact: The overall impact on India is wide and significant. Rising oil prices increases the price of import, widen the trade deficit and put severe pressure on Indian rupee. The government may also be burdened with higher fiscal issue to subsidize and tax to control to adjust fuel price. Additionally, the disruption in global supply chain and trade affect the like manufacturing, agriculture and transport Figure 1.

Cost push inflation: The conflict leads to cost pull inflation, where rising input cost (specially fuel)

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increase the overall price level in the economy. Higher transportation cost raise production cost which is passed on to consumers in the form of higher prices of goods and services. This leads to inflationary pressure across sectors such as food, logistics and manufacturing.

Social unrest: Economic stress caused by inflation, unemployment and rising living cost can lead to social dissatisfaction. Many Indian residents also reside the counties involved the in the conflict which also rises matter of concern among their family members Figure 2.

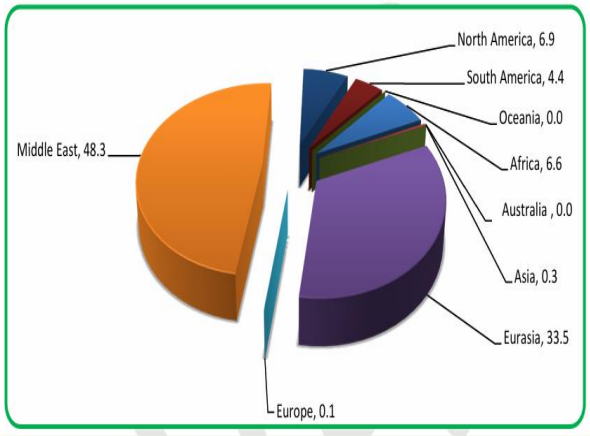

Figure 2 sources of import of crude oil with percent

4. Comparative Analysis (Pre Vs During Conflict)

4.1.Trend Analysis Of LPG Gas Price For Domestic And Commercial Sector

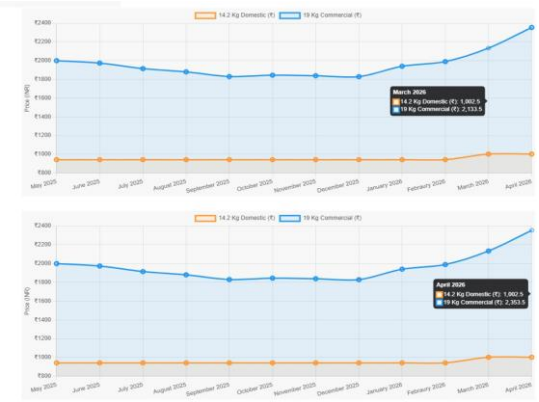

Figure 3 pieces of commercial LPG and domestic LPG over months

The orange line reflects the price of domestic LPG which has been stable throughout before the closure of Strait of Hormuz. Though after its closure the stable price had also increased to Rs.1002.5. on the other hand, the blue line displays the price of LPG in commercial sector which has been the highest since the last few months at Rs. 2133.5 Figure 3.

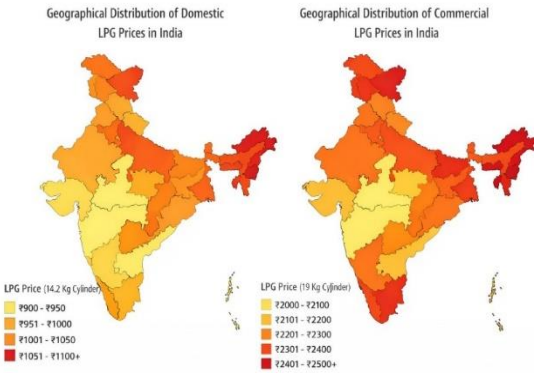

Figure 4 Geographical distribution of Domestic and Commercial LPG prices in India

The following figure displays the prices of LPG in domestic and commercial sector over the nation. The price of LPG in domestic sector is the highest in north-east due the extra transportation cost. In terms of commercial sector the price of is highest in north, south due to high demand in restaurant sector and in north east due to communication cost Table 1.

Indicator	Pre-conflict: 2018–2025 (Mean Average)	During-conflict: 2026 (Highest)
Oil Prices	$72.693 per barrel	$123.59 per barrel
Inflation	4.946%	3.5%
GDP Growth	5.33% (PY- 6.5%)	6.7%
Exchange Rate	₹77.99 (₹68 → ₹83 per USD)	₹93 per USD

Table 1 comparison between various factors before and after conflict. (Source: Author)

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Interpretation

- Oil prices showed sharp upward spikes during conflict, followed by volatility.
- Inflation has been controlled through the strategic policy implementation of India.
- GDP growth slowed due to increased production costs and reduced consumption.

Objective 3: India's Risk Management Strategies adopted by India

India has adopted various risk management strategies to rest the economic and energy related shock igniting from geo political tensions involving Iran, Israel and USA. And important short-term measure has been the diversification of crude oil sources like Russia, Africa decreasing dependence on any single region. India ensures supply continuity even when unfavorable conditions like, specific trade routes or suppliers face disruption. Completing this outlook is the strategic use of Strategic Petroleum reserves (SPR), which act as a safe guard stock during periods of supply uncertainty or abrupt price spike, helping stabilized domestic availability and prices. On the economic and financial front, the Apex bank of India RBI adjust plays a significant role by closely monitoring influence trends and maintaining financial stability. Since, global rivalry often led to and certain crude oil prices, the RBI revisits its monetary policy tools such as interest rate a liquidity measure to control inflationary pressures and make sure economy is stabilized. Simultaneously, the birth of the students was, the government also interrupts through fiscal and policy measures to manage fuel price uncertainty. This includes altering exercise duties, providing subsidies where important and coordinating with oil marketing companies. To prevent extreme fluctuations in retail fuel prices, thereby helping in protecting customers and key sectors of the economy like the restaurant sector. In the long run India's strategy focuses on reducing structural vulnerability to such external shocks by increasing the changing to renewable energy sources like solar, wind, and green hydrogen. This shift not only reduces the dependence on imported commodity but also creates strong overall energy security. Moreover, initiative in terms of increasing domestic exploration, amplify energy efficiency, and investing in other fuels contribute to a more resilient base. Through this compilation of early response and upcoming policies. India aims to eliminate risk associated with geopolitical conflicts to ensuring sustainable economic growth and energy stability.

5. Discussion

The conflict involving the United States, Israel, and Iran has had significant implications for both the global economy and India. Globally, it disrupts key trade routes like the Strait of Hormuz, leading to supply chain breakdowns, rising energy prices, inflation, and an increased risk of recession due to higher production costs and reduced economic activity. For India, the impact is particularly severe due to its dependence on oil imports, resulting in energy insecurity, widening trade deficits, cost-push inflation, and potential social unrest. LPG prices in both domestic and commercial sectors have risen notably during the conflict period, reflecting broader inflationary trends, while GDP growth has slowed due to increased costs and reduced consumption. To manage these risks, India has adopted strategies such as diversifying oil import sources, utilizing strategic petroleum reserves, implementing monetary and fiscal measures through the RBI and government policies, and promoting renewable energy to reduce long-term dependence on imports, thereby enhancing economic resilience and energy security.

Conclusion

In conclusion, the war has impacted the world adversely mainly due to closure of Strait of Hormuz. The world's economy is greatly affected, other than that the commercial sector of LPG has taken a rise. Though the strategies used by India like expanding their own oil sources and diversifying the channels for imports make an effective mark.

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